



Auditor-General of South Africa

Mpofana Municipality -
Audit report 2014-15

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Council on Mpopoma Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Mpopoma Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality did not account for all items of property, plant and equipment in accordance with GRAP 17 Property, plant and equipment. Items of property, plant and equipment owned by the municipality have not been included in the financial statements. Consequently, property, plant and equipment is understated by an amount of R1,75 million (2014: R3,90 million). In addition, there is a consequential impact on the accumulated surplus.

Investment property

7. I was unable to obtain sufficient appropriate audit evidence for investment property, as the municipality did not maintain documentation to support the amounts disclosed as investment property. I was unable to confirm the investment property values by alternative means. Consequently, I was unable to determine whether any adjustment relating to investment property stated at R5,36 million (2014: R13,92 million) in the financial statements was necessary.

Payables from exchange transactions

8. The municipality did not recognise all payables meeting the definition of a liability, in accordance with GRAP 1 *Presentation of financial statements*. As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, I was not able to determine the full extent of the understatement of trade payables, accruals and expenditure as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment relating to Payables from exchange transactions stated at R4,38 million (2014: R8, 64 million) in the financial statements was necessary.

Cash flow statement

9. Cash flows from operating activities included differences described as undefined differences of R3,22 million. I was unable to obtain sufficient appropriate audit evidence for this undefined difference. I was unable to confirm these differences to the cash flow by alternative means.
10. The municipality did not accurately prepare the cash flow statements. Cash flows from operating activities were materially misstated. Consequently, cash flows from operating activities per note 37 to the financial statements was understated by an amount of R6,05 million.

Commitments

11. The municipality did not disclose all amounts to which it is legally committed to pay in terms of contracts currently concluded. Consequently, commitments are understated by an amount of R2,55 million. In the prior year, the municipality incorrectly included

amounts for which it was not committed and consequently the prior year disclosure is overstated by an amount of R3,1 million.

Revenue

12. I was unable to obtain sufficient appropriate audit evidence for revenue from traffic fines and the related receivables from non-exchange transactions for the current and prior year due to the status of the accounting records. The municipality did not have adequate systems of internal control in place for the recording of all revenue from traffic fines and the related receivable from non-exchange transactions. I could not confirm revenue and receivables by alternative means. Consequently, I was unable to determine whether any adjustment to revenue stated at R6,45 million (2014: R614 925) in the financial statements was necessary.

Qualified opinion

13. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Mpofana municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses and impairments

14. As disclosed in note 6 to the financial statements, consumer debtors were impaired to the amount of R40,33 million (2014: R36,08 million) as a result of poor collection of outstanding consumer debt.
15. As disclosed in note 48 to the financial statements, material losses of electricity to the amount of R 15,26 million (2014: R10,36 million) were incurred as a result of electricity line losses within the electricity network infrastructure.

Going concern

16. As disclosed in note 41 to the financial statements, the municipality did not have sufficient cash resources to realise the unspent conditional grant liability. The unspent conditional grant liability amounted to R19,23 million as per note 16 and the available investment balance amounted to R9,48 million as per note 7.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these

matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for Objective 2: Basic Service Delivery presented in the annual performance report of the municipality for the year ended 30 June 2015.
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. I did not identify any material findings on the usefulness and reliability of the reported performance information for Objective 2: Basic Service Delivery.

Additional matters

23. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matters:

Achievement of planned targets

24. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Objective 2: Basic Service Delivery. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

26. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
Material misstatements of non-current assets, current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Audit committees

28. The audit committee did not advise the council on matters relating to effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
29. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
30. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by the municipal planning and performance management regulation 14(4)(a)(ii).
31. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by the municipal planning and performance management regulation 14(4)(a)(i).
32. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by municipal planning and performance management regulation 14(4)(a)(iii).

Internal audit

33. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Procurement and contract management

34. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
35. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
36. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

37. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
38. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
39. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.

Expenditure management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
41. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
42. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred , accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.

Conditional grants

43. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant allocation, as required by section 12(5) of the DoRA.

Revenue management

44. A tariff policy was not adopted for the levying of fees for provision of municipal services, as required by section 74(1) of the Municipal Systems Act and section 62(1)(f)(i) of MFMA.
45. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.

Asset management and liability management

46. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
47. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

48. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

49. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, and the findings on compliance with legislation included in this report.

Leadership

50. The oversight function on the review of the internal control processes in strategic planning and financial and performance reporting were not adequate to prevent the recurrence of prior year findings. The action plan of the municipality was not adequately and consistently monitored. Vacancies in key positions and inadequate policies and procedures have attributed to the ineffective control activities that have led to repeat findings.

Financial and performance management

51. Reported information was not adequately supported by source documentation. Daily controls were not adequate to support accurate financial recording and record keeping and to enable timely reconciliations to be performed. The process of ensuring that the supporting records agree to the annual financial statements was not appropriately monitored and check for accuracy and completeness.

Governance

52. The risk assessment process was not adequately driven by the internal audit and the audit committee to ensure that prior year findings were adequately addressed. The legislative responsibilities of the internal audit and the audit committee were not monitored to ensure that these objectives were met during the year under review.

Other reports

Investigations

53. The municipality performed an investigation, which covered the period 1 July 2014 to 30 June 2015. The investigation was initiated based on an allegation of possible misappropriation of the municipality's assets, abuse of municipal vehicles and gross misconduct. The investigation was concluded on 12 November 2014 and resulted in disciplinary proceedings being instituted against the official. These proceedings were finalized on 19 February 2015 and resulted in the dismissal of the official.

54. The municipality performed an investigation, which covered the period 1 July 2014 to 30 June 2015. The investigation was initiated based on an allegation of inadequate handling of cash, misrepresentation of monies received and the fraudulent issuing of licenses and permits at the municipality. The investigation was concluded and there was no evidence of the alleged deeds found by the municipality.

Auditor-General
Pietermaritzburg

27 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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